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TO: R. Roper DATE: October 17, 1984

FROM: R. Stirlen

SUBJECT: MARLBORO 5 PACK CARTON

The purpose of this memo is to provide the rationale and recommendation for the test marketing of Marlboro 5 Pack Cartons.

BACKGROUND

Over the past two years, Federal and State Excise Tax increases and manufacturers price increases have raised the carton price of cigarettes at retail by over 35%.

At the present time, the average retail carton price is approximately $8.90 and in some areas is as high as $11.40. In addition, the growth of generic and private label brands selling at approximately $2.25 per carton less, has served to magnify the higher branded price structure.

These two factors have had a negative impact on carton sales in many high volume carton oriented retail accounts. The trend has been to fewer carton sales per week and an increase in pack and multiple pack sales. Also, the recent strong performance of generics may be in part due to a shift away from the higher priced branded to generic carton purchases.

At the same time, a number of traditional single pack type outlets (most notably chain convenience stores) have begun to more aggressively merchandise multiple packs. These efforts are coordinated at the chain level and are executed by the individual outlets.

Overall, these two converging trends indicate that there is a desire on the part of retailers, and likely consumers as well, for a sales unit between the single pack and 10 pack carton.

RECOMMENDATION

It is recommended that Marlboro 5 Pack Cartons be tested to see if this half-carton option will allow the franchise to gain additional sales. It is proposed to test Marlboro 5 Pack Cartons in two markets beginning on April 1. Attached is a detailed plan covering the various elements of the test.

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DISCUSSION

1. Innovative Packaging - As the number one selling brand in the industry, Marlboro is in the best position to introduce this innovative carton size. In fact, based on the brand's sales and image leadership position, it is possible that only Marlboro can successfully gain and maintain the distribution and display which are critical to this proposition.

2. Target Market - It is anticipated that Marlboro 5 Pack Cartons will generate additional brand volume from:

- pack and multiple pack purchasers who will move up to the convenience but not excessive price of a 5 Pack Carton. Convenience stores represent a key outlet segment in gaining these types of smokers.

- smokers who find cartons too expensive, but do not want the inconvenience and added cost of single pack purchases.

3. Pricing - Philip Morris cannot enforce a 5 Pack Carton price. However, a pricing structure between five times the pack price and half the carton price will be recommended to retailers. This structure will allow for graduated savings as consumers move from pack to 5 pack carton to carton purchase.

4. Risk - There is virtually no risk to Marlboro in pursuing this test plan. The 5 Pack Carton is not a replacement for the 10 Pack Carton, and the predominantly white outer carton should keep retailers from treating these units as a replacement. If retailers embrace the proposition and display and price the 5 Pack Carton appropriately, Marlboro should benefit from additional volume. If this is not the case, the 5 Pack Carton can be removed from the markets with no lasting negative impression.

5. Test Timing - In reviewing the test plan, it is important to note that this test should be conducted for sufficient time (minimum of six months) to obtain an accurate read of added sales potential. There may be considerable early curiosity trial and it undoubtedly will take retailers time to determine how they will display and price the 5 Pack Carton.

Please let me know if you need any additional information.

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Rick